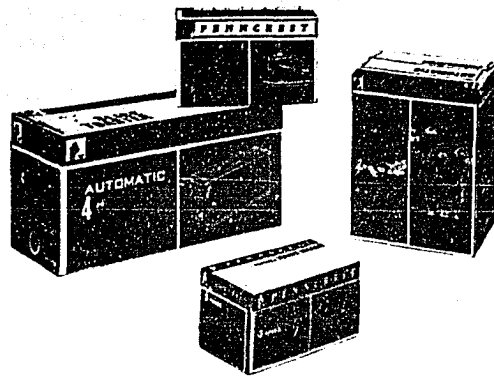




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Penney's 1963 Annual Report

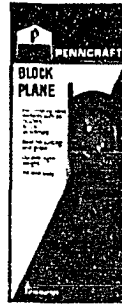


The new look of **Penney's**

Introduced last November in newspaper advertisements throughout the country was Penney's new signature combined with our famous slogan, *Always First Quality*.

The new, modern-looking signature, or logotype, is designed to symbolize the Penney Company of the 1960s and the expanding merchandise lines and services being offered to customers today. In addition to advertising, the new signature will be used in packaging, labeling and other promotional areas.

The new signature also will be seen increasingly on new store fronts, like that at Price's Corner Shopping Center, Wilmington, Delaware, as the Company's store expansion and modernization program progresses in the months and years ahead.



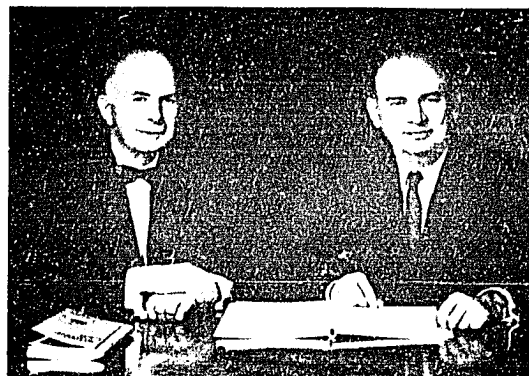
J. C. Penney Company 1963 Annual Report

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Annual Meeting The annual meeting of stockholders will be held at 10 a.m., on May 19, 1964 in the Georgian Room, Hotel Statler Hilton, 7th Avenue and 33rd Street, New York, N. Y. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 10. Your prompt attention to the proxy statement will be greatly appreciated.

A. W. HUGHES, *Chairman of the Board, and*
W. M. BATTEN, *President and*
Chief Executive Officer



To Our Stockholders:

Substantial growth and progress were registered during 1963, as an examination of this report will show.

Sales and earnings both reached record highs, reflecting a high level of business activity, aggressive merchandising and promotional activities, and intensive expense control.

Our financial structure was strong and able to meet our needs, and dividends were well covered.

Our personnel—in stores, offices and warehouses—collectively did an outstanding job without which the year's results could not have been achieved.

This also may be said of the approximately 6,500 vendors who complied with our quality standards for merchandise sold through our catalogs and in the retail stores.

Our plans and programs—catalog sales, broadening of merchandise lines and store expansion—saw the Company move significantly ahead toward our over-all objective of wider customer appeal, better service and greater competitiveness.

Sales at Record High

Sales for fiscal 1963 reached a record total of \$1,834,317,527 compared with \$1,701,332,645 for the year before. This was an increase of \$132,984,882 or 7.8 per cent. It also represented the ninth straight year of record sales.

Sales for a single month topped \$300 million in December for the first time in our 62-year history, for a total of \$305,090,486. The increase, which amounted to \$31,534,712 or 11.5 per cent, was the 20th in a row for December.

It is interesting to note that the December sales figure was slightly more than the sales volume for the Penney chain in the entire year 1940, when sales were \$304,539,325. At that time we had 1,586 stores in operation compared with 1,678 at the close of fiscal 1963.

Net Earnings at Record High

Net earnings for the fiscal year amounted to a record \$55,292,198, equal to \$2.22 a share on the 24,931,297 shares outstanding, compared with \$54,804,070, or \$2.20 a share, for fiscal 1962, the previous record year.

Provisions of the Revenue Act of 1964 contributed 11¢ a share in after-tax income.

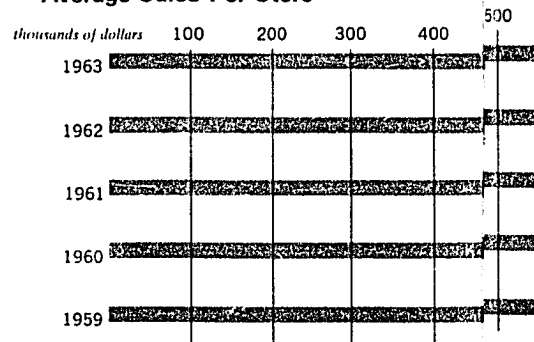
Earnings continued to be affected by substantial costs involved in the Company's various expansion programs. Before federal income tax earnings amounted to \$109,892,198 compared with \$114,404,070 for fiscal 1962.

Dividends totaling \$1.50 a share were paid during the year. These consisted of four quarterly payments of 30¢ a share, and an extra dividend of 30¢. The payment of \$1.50 equaled 68 per cent of net earnings for the year. Added to surplus for future growth of the Company was \$17,900,430, or 72¢ a share.

Results in Brief

Sales	
Earnings (after tax)	
Dividends	
Taxes (federal, state and local)	
Per share	
Earnings (after tax)	
Dividends	
Taxes (federal, state and local)	

Average Sales Per Store



Financial Position and Inventory

The statements in this report reflect the sound financial position of the Penney Company. On January 31, 1964, net working capital amounted to \$296,521,504 against \$280,163,738 on the same date last year. Accounts receivable less allowance for doubtful accounts totaled \$226,869,717, against \$170,690,708 for the previous year.

During the year, as anticipated, we continued to employ short-term borrowings. While no action has yet been taken on the formation of a finance subsidiary, the matter is being given careful study and a decision is expected to be made during the coming year. This subsidiary would purchase customers' accounts receivable from the parent Company, providing the latter a source of funds as well as greater flexibility in the financing of receivables.

During 1963 there was little change in retail price levels in our merchandise lines. For the Company as a whole, inventory at \$285,310,602 was up over a year ago, but still in line with current sales trend at the year-end. The merchandise was valued on the basis of cost or market, whichever was lower. It was in excellent, salable condition.

Credit Selling Expands

Last year marked the first full year of credit selling for all Penney stores. It started on a limited basis in September 1958, among a "pilot" group of 24 stores, and gradually was extended as the physical facilities were installed and personnel trained in additional stores.

Penney charge cards today are honored at any Penney store in the United States, and 14 regional offices having the most advanced data computing equipment make it possible to render a single billing quickly and efficiently.

Credit sales in fiscal 1963 amounted to \$507,019,735 or 28 per cent of total sales, up from 25 per cent the year before. This percentage is expected to rise gradually but steadily as we broaden our merchandise lines and gear our merchandising and operating methods increasingly to credit selling.

Capital Expenditures to Rise

Our store expansion and modernization program, which is outlined on page 15 of this report, finds the average size of Penney stores continuing to increase as merchandise lines are added or expanded to serve customers better.

Capital expenditures totaled approximately \$20 million last year, and are scheduled to rise to an estimated \$28 million this year. This projected increase is owing chiefly to the larger stores we are opening today, to expansion and relocation of existing stores, to installation of catalog desks and to the relocation of our headquarters described on page 16.

Low Margin Stores Added

When the Penney Company acquired General Merchandise Company, the acquisition included one low-margin store in Appleton and another in the construction stage in Madison, both in Wisconsin. Called Treasure Island stores, they are operated and administered by a wholly-owned subsidiary, Mid-West Corporation. These stores serve as a valuable working laboratory where different merchandising and operating techniques can be readily tested and evaluated.

Later this year we plan to open three additional Treasure Island stores in Milwaukee to test this type of low-margin operation in a metropolitan area. Further expansion of this experiment will depend upon careful evaluation of results.

Officer, Director Changes Announced

Everett L. Moore, vice president and director of real estate and store planning, was elected to the board of directors. His election filled the vacancy created by the resignation from the board of Glendon M. Campbell, formerly comptroller. Mr. Campbell retired last August 1 after 34 years with the Company.

Named to succeed him as comptroller was Robert L. Adair, manager since 1956 of the Company's Southern Accounting Division in Dallas. Mr. Adair joined the Company in 1947 in Atlanta as a junior auditor

Personnel Effort Geared to Bigger Opportunities

Essential to the Company's growth and development are trained, competent people, and we have taken steps to strengthen all areas of our personnel activity. This is entirely in keeping with our traditional recognition that ours is a "people business." Increased emphasis is being placed on organization planning and administration. In addition, we always have followed the basic policy of promoting from within, and this has spurred us to greater efforts in finding talent internally. However, in highly specialized new areas, it has been necessary to seek the finest talent available outside the Company.

We have intensified our recruitment efforts. Our training program has been greatly expanded in terms of staff, materials and techniques. Our compensation plan, always competitive, has been updated to insure continuance of incentives needed to attract, retain and reward qualified personnel. In short, our personnel program is geared to the important task of preparing Penney people for the larger opportunities that lie ahead.

Anticipate Good Year

At this writing in mid-March, shortly after passage of the tax reduction bill, the economy is operating at a very high level of activity. It seems safe to predict that retailing generally, and our type of store in particular, will benefit importantly from a continued high level of consumer spending.

The tax reduction provides welcome relief, both corporate and individual, from a tax structure that all agreed had become increasingly burdensome. It should provide a needed and healthy stimulus to the entire economy, particularly if accompanied by a corresponding decrease in government expenditures as asked by the President.

It is of course difficult to measure the effect of the tax reduction, but it is generally assumed that retailing will be among the chief beneficiaries of more take-home pay. We anticipate that 1964, which will see further development of our plans and programs, will be a good year for the Penney Company.

Sincerely,

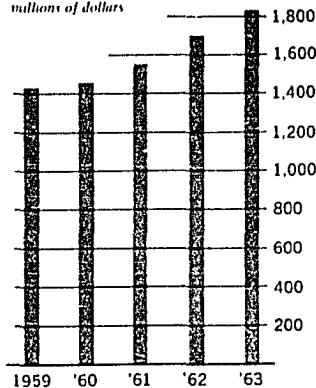
A. W. Hughes
Chairman of the Board

W. M. Batten
President

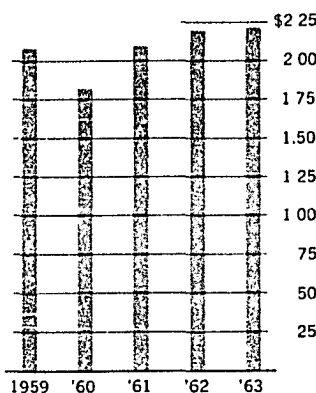
March 18, 1964

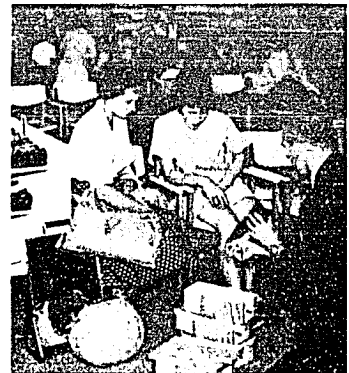
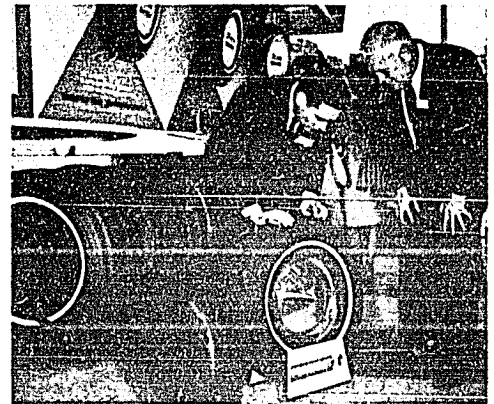
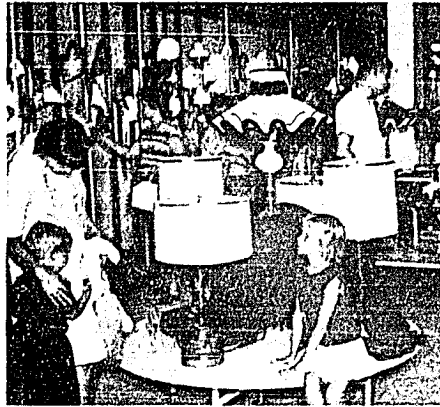
Total Sales

millions of dollars

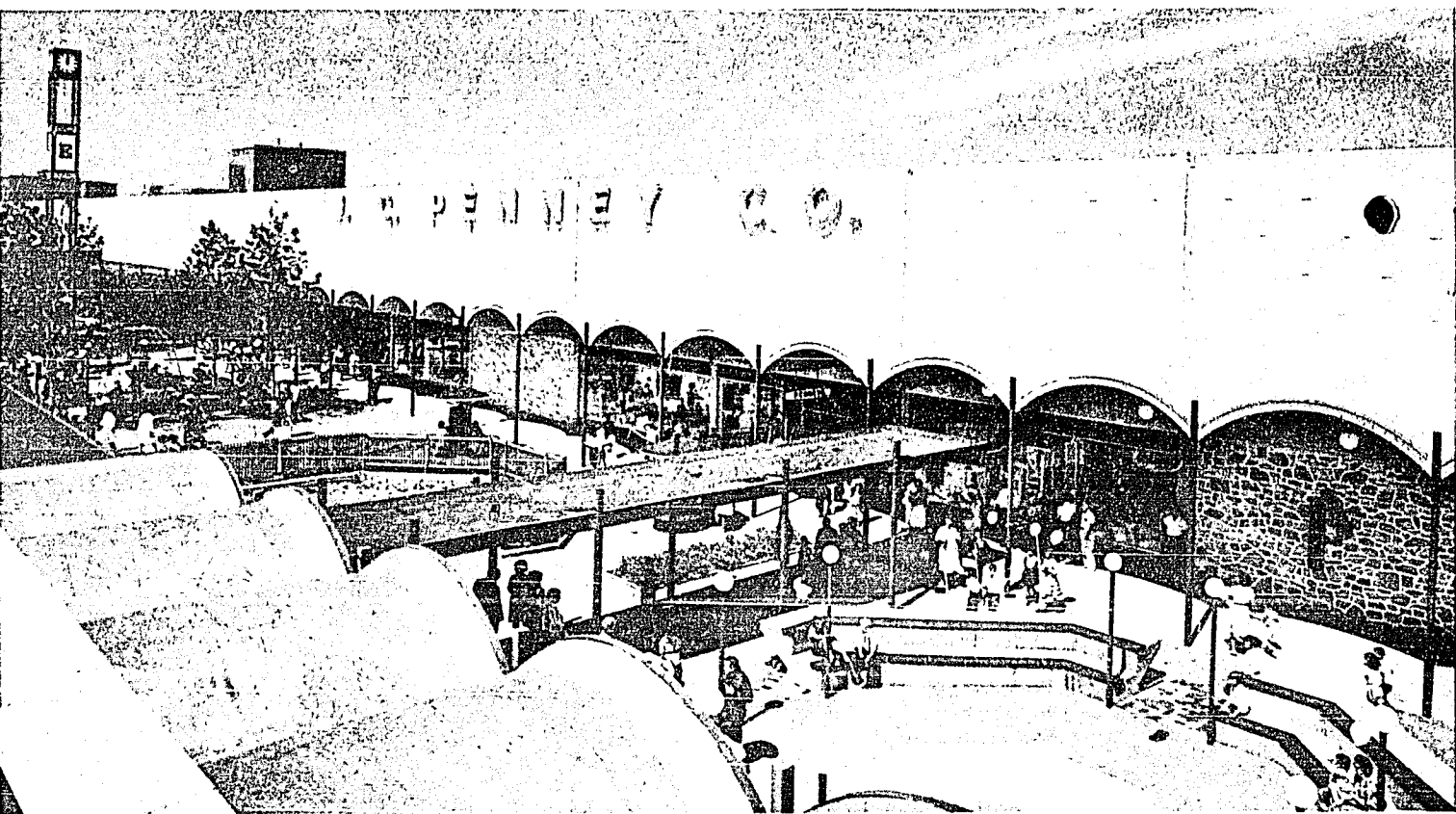


Net Earnings Per Share





Penneys today
ALWAYS FIRST QUALITY



King of Prussia Penney's has 250-foot frontage, is forerunner of other Penney stores in metropolitan areas.

King of Prussia—Prototype Store

On August 15th of last year, Penney's opened its largest suburban facility to date, the 152,000 square foot King of Prussia, Pa., store in the sprawling, 95-acre King of Prussia Plaza 16 miles northwest of downtown Philadelphia.

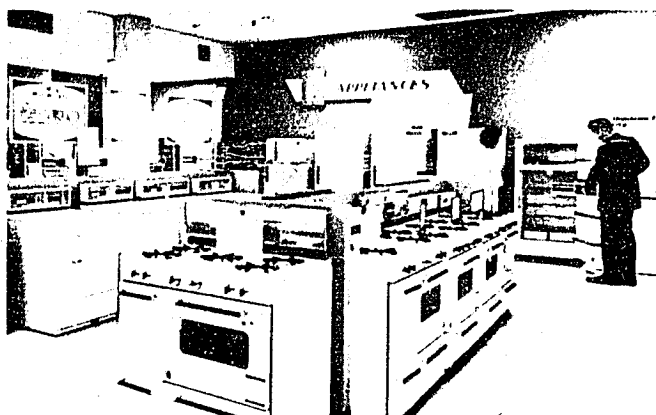
Featuring fashion apparel such as sportswear designed by Britain's Mary Quant, Penney's King of Prussia store boasts 32 major departments and 238 separate subdivisions including men's and boys' wear, work clothes, record shop, greeting cards and stationery, candy, cosmetics and toiletries, blouses, millinery, women's furnishings and accessories, foundations, gifts, infants' and girls' wear, a family shoe department, luggage, fine jewelry, snack bar and optical shop on the 60,000-square-foot main floor.

The second floor features ready-to-wear, sportswear, cottons, piece goods, housewares, home furnishings, sporting goods, toys, *Penncrest* television, refrigerators, ranges, freezers, dryers, air-conditioners, dehumidifiers, washers and portable dishwashers, paints and hardware, beauty shop and portrait studio.

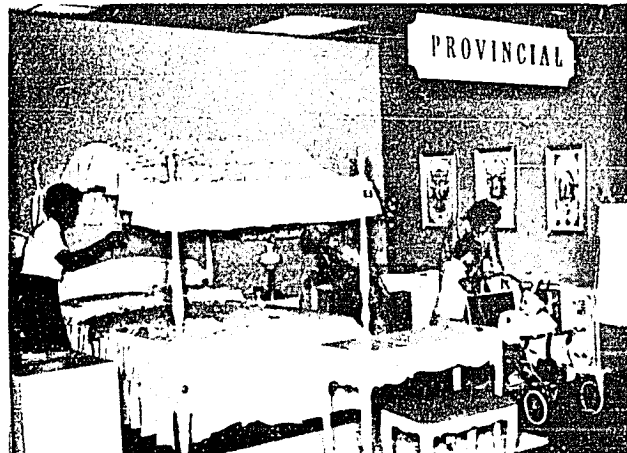
Strategically spotted throughout both floors are central wrap counters to facilitate self-selection of merchandise.

King of Prussia Plaza has parking facilities for 9,000 automobiles.

While King of Prussia is our largest suburban store to date, it represents a "phase" or transitional operation and is about the average size of those



Above, Penney's own-label Penncrest appliances, including refrigerators, ranges, washers and air-conditioners, are featured in King of Prussia store.



Above, right, fashion floor was object of never-ending interest particularly to younger customers.

Above, center, expanded furniture departments, such as that in King of Prussia store, also will characterize metropolitan area stores being planned.

Right, a bright decor plus attractive displays of wanted merchandise helped make opening day a record-breaker at the new King of Prussia store.

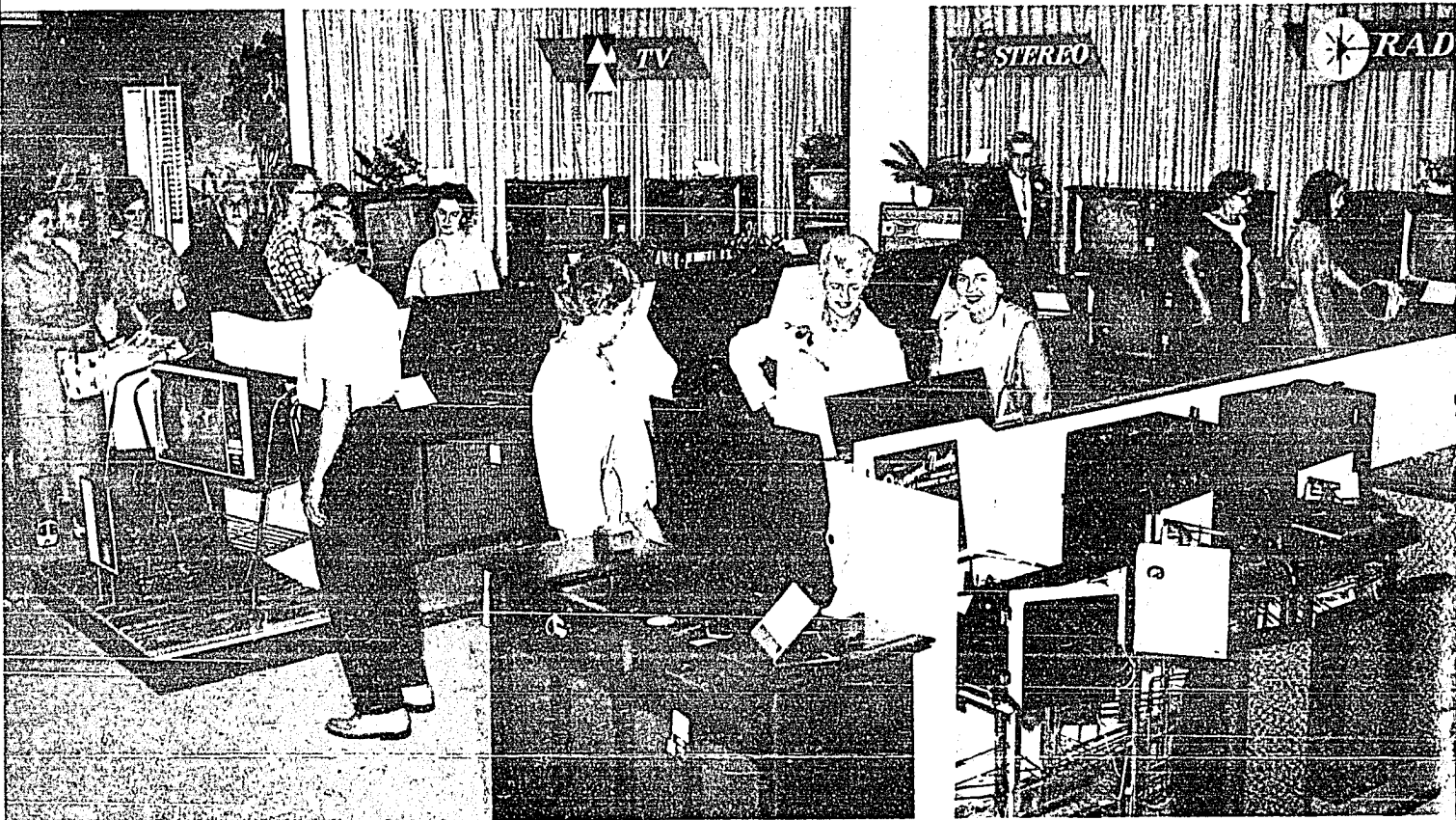


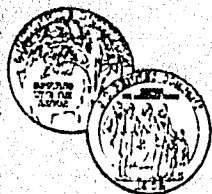
being planned for the future in large metropolitan markets. In fact, plans were announced in January for enlarging King of Prussia by 27 per cent for a total area of nearly 193,000 square feet. Automotive equipment is scheduled to be introduced later.

King of Prussia thus constitutes a milestone in

Penney Company history as it represents the first new suburban store to fulfill our avowed aim of offering customers "one-stop shopping service", providing greater depth in established Penney lines, a larger selection of new, private-brand hard lines and a full assortment of services in metropolitan markets.

Penney's reputation for quality and value carried over to paint & hardware and TV & stereo as both departments proved highly popular with customers. Company had opened 14 paint & hardware and 116 TV & stereo departments at year's end.





SPRING & SUMMER 1964

Auto Supplies	709
Baby Goods	353
Bath Shop	1020
Batteries	726
Bedding	974, 982
Bedspreads	991
Blankets	988
Books, Bibles	696
Bras, Girdles	168
Bulldozers' Hardware ..	833
Clothing, Boys'	389
Clothing, Girls'	318
Clothing, Men's	432
Cosmetics	135
Curtains, Draperies ..	1037
Decorative Pillows ..	1018
Diamond Rings	677
Dinnerware	898
Drapery Yard Goods ..	1012
Electrical Appliances ..	841
Floor Coverings	1078
Furniture	935
Garden Supplies	532
Hand Tools	796
Hosiery	144
Housewares	860
Lamps, Lighting	886
Lighting Fixtures	880
Lingerie	152
Luggage	662
Maternity Wear	66
Men's Furnishings	440
Millinery	34
Musical Instruments ..	916
Notions, Needlework ..	305
Office Equipment	636
Paints	784
Photo Equipment	638
Refrigerating, Heating ..	808
Tools	778
Robes, Women's	216
Sewing Machines	854
Sheets	988
Shoes, Men's, Boys' ..	245
Shoes, Women's, Girls' ..	220
Shower Curtains	1025
Slipcovers	1005
Sporting Goods	559
Tablecloths	908
Television, Radios	919
Tires	709
Towels	1020
Vacuum Cleaners	856
Venetian Blinds	1070
Vitamins	698
Watches	689
Work Clothes	482
Yard Goods	280

Credit Terms
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Catalog Program Registers Progress

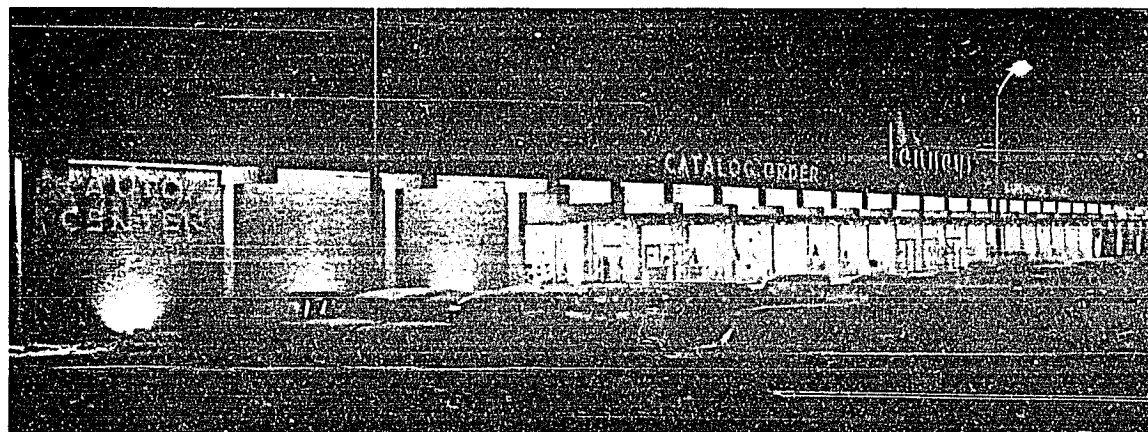
In January of this year, Ohio became the eighth state in which Penney's has opened catalog desks (128) in its stores since the first desks were launched in September, 1962. The seven other states are Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri and Wisconsin. 200 or more additional desks, or centers, all serviced by our catalog sales warehouse in Milwaukee, are scheduled to be opened in the Midwest this year.

The catalog program, which will greatly expand the merchandise "mix" available to Penney customers (see the catalog "spine" at left), eventually will be extended throughout the chain. As you know, we entered the catalog sales business in 1962, when we acquired General Merchandise Company of Milwaukee. It now is the catalog division of the Penney Company.

Thus far we have issued four catalogs: the first all-Penney catalog distributed last August, followed by a toy catalog, a winter promotional catalog and our first Spring & Summer volume as illustrated on the back cover of this report. Catalog customers have more than 80,000 items to choose from.



Catalog desk at left is part of Milwaukee distribution center, which serves eight Midwestern states. The highly automated warehouse, below, covers more than 1.3 million square feet, or about 30 acres of floor space.



Exclusively at Penney's

Available exclusively at Penney's this spring is a new collection of sportswear coordinates by Britain's Mary Quant, the exciting young originator of the famed "Chelsea Look" and winner of England's Designer of the Year award.

Miss Quant's spring and summer collection, her fourth for Penney's, is being featured in selected Penney stores and in our Spring & Summer catalog.

Most of the line-for-line copies of Miss Quant's fashion coordinates are manufactured in England under her supervision.

The two-piece suit below retails at \$24.95; the pin striped jumper is \$13.95, and high collared blouse, \$8.95. They are modeled by England's top fashion model, Miss Jean Shrimpton. The illustrations are from our Spring & Summer catalog.



Photographed in London by David Bailey





Penney's Makes for...Easy Living

One sign of the growing attraction of casual living is the increasing demand for higher fashion sportswear. Our buyers and stylists spotted the trend, and three years ago Penney's became the first retailer to introduce color-coordinated sportswear for men and women on a nationwide basis . . . and at Penney's usual value-packed prices.

Customers responded enthusiastically, and this

spring promises smooth sailing for our latest collection—Navy and Old Salt coordinates—on land and sea, fore and aft, wherever easy living's the fashion. Sample items: men's slacks, polyester/rayon, \$4.98; short sleeve, mohair/wool navy cardigan sweater, \$10.95; women's stretch slacks, \$6.95; printed stripe cotton shirt, \$2.98. All the above items are being featured in both Penney stores and our Summer catalog.



Penney's Melbourne, Florida, store, near Cape Kennedy's missile complex, promoted our first TBA facility in true space-age style. The Golden Sahara, "car of the future," was displayed, and representatives of Florida's Air Academy and the country's missile program were among honored guests

Penney's Enters TBA Business

If benchmarks of business history can be measured in terms of time and place, then "Melbourne, Florida, 1963" will hold special significance for Penney's.

For it was there—and then—that we opened our first Auto Center last August 29 in the first step to claim our share of the lucrative and competitive TBA (tire, battery and auto accessory) business. Opening of the center signalled the introduction of Penney's own line of *Foremost* automotive merchandise, which also was featured in 54 pages of our Spring & Summer catalog.

By the end of the fiscal year, six more centers had been opened along with two in-store departments. All seven centers offer complete installation service as well as our *Foremost* automotive merchandise.

This year will see even more dramatic growth for our TBA program, as approximately 40 to 50 additional Auto Centers and in-store departments are being planned in 25 states.

To help make sure that we pack into our automotive goods the same value which traditionally has characterized our soft goods, Penney's has affiliated with suppliers who are able to meet the most exacting standards of product quality and excellence. In tests our line of passenger, truck and tractor tires outperformed competitive lines.

Now that our TBA program has moved from the planning boards on to the road, we look forward to steady and continued growth in the years ahead for this phase of our broadened merchandise program.

Protecting the Penney Label

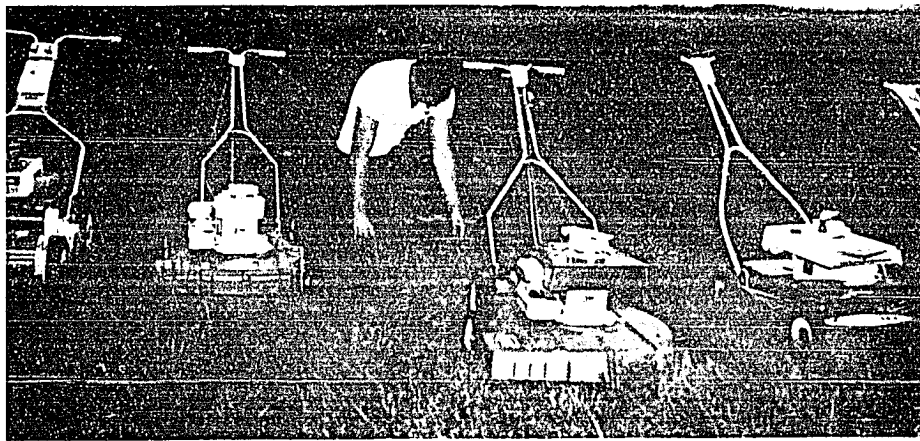
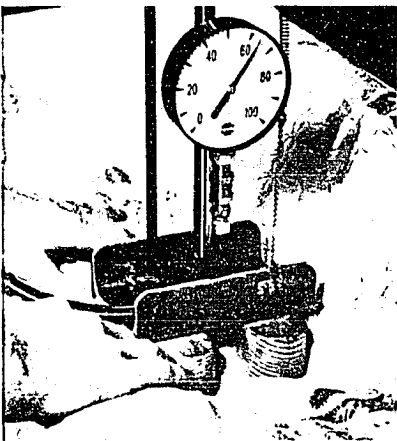
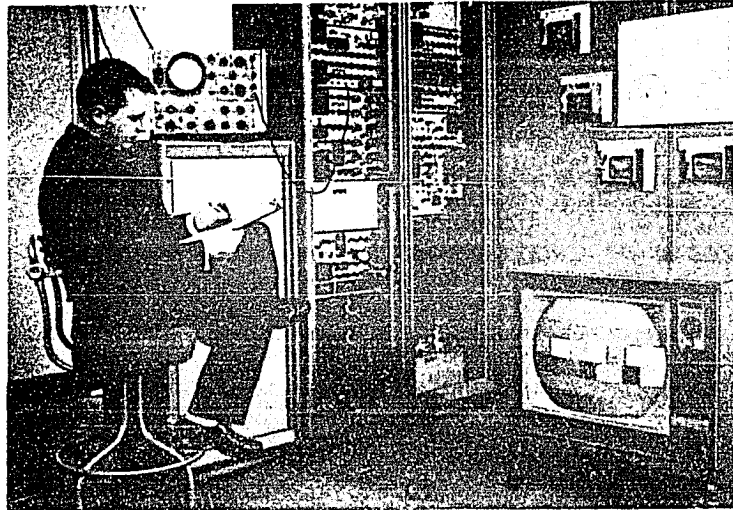
Giving customers the most for their money has been a habit at Penney's these many years. And hand-in-glove with this concept goes our slogan, *Always First Quality*, which means we sell no seconds or sub-standard merchandise, ever—another bit of Penney fussiness we think customers appreciate.

To make sure that *giving value* is not just an empty phrase, we support one of the most comprehensive quality-control programs in the retail industry. This

program embraces the *designing* of products and establishing of specifications to assure the greatest possible serviceability for the price; *inspecting* merchandise before it is shipped to our stores; and *testing* to assure satisfactory performance.

Illustrated below are examples of one phase of quality-control—the work of our merchandise testing center which last year conducted more than 60,000 individual tests on merchandise.

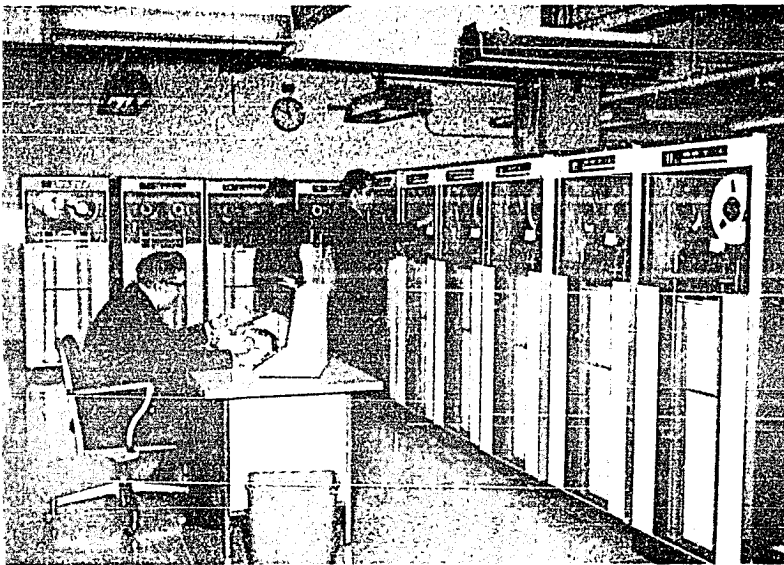
At right, using Penney's own closed-circuit broadcasting system, technician makes final checkout for accuracy of color registration, purity and correctness of Penncrest television hues. Below, one phase of field test of nearly 50 power lawnmowers checks makers' claims, and pneumatic piston simulates jumping action of 50 lb. child to test durability of springs and padding of crib mattress.



Expanding Customer Services

Our concept of service is, basically, to make it easy and attractive for the value-conscious customer to shop Penney's. In keeping with this concept we are expanding the licensed departments in some of our larger stores to include snack bars, beauty salons, optical and shoe repair shops. Also, we offer customers the most advanced charge account service available today, giving them the option of treating

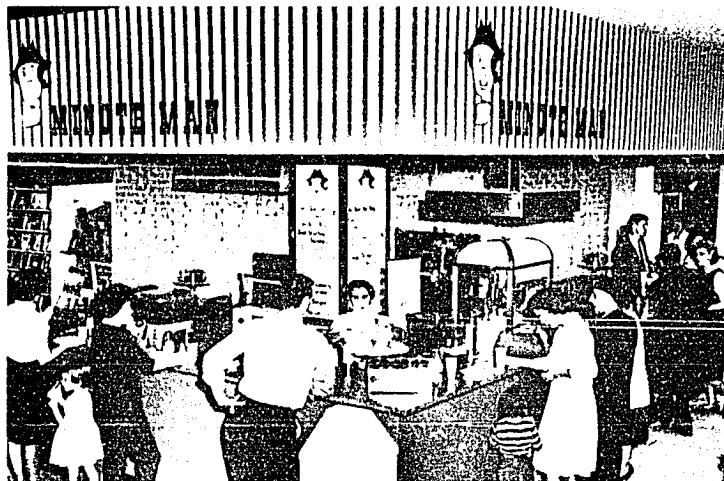
an account either as a regular 30-day account, or handling it on a convenient installment basis. An example of an indirect service to customers is one of Penney's electronic data processing systems (pictured below) which develops and correlates information on sales and stocks of merchandise to make sure our stores have merchandise in sizes and colors customers want when they want it.



Charge accounts (below) are serviced efficiently by 14 regional credit offices equipped with modern electronic data processing systems like that installed in Company's Central Office (left).



Small stand-up snack bar in King of Prussia Penney's proved so successful we are planning sit-down facilities in other large new stores.

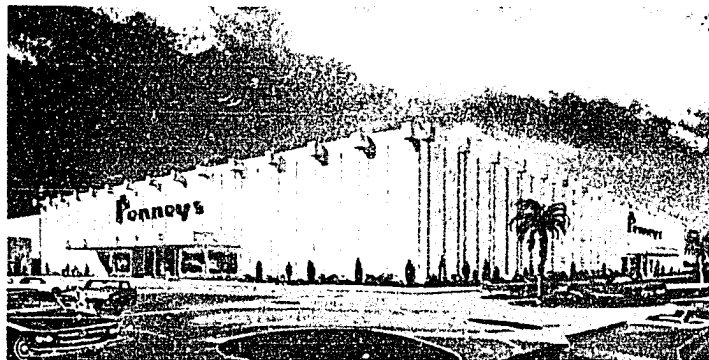


Bigger Stores Coming

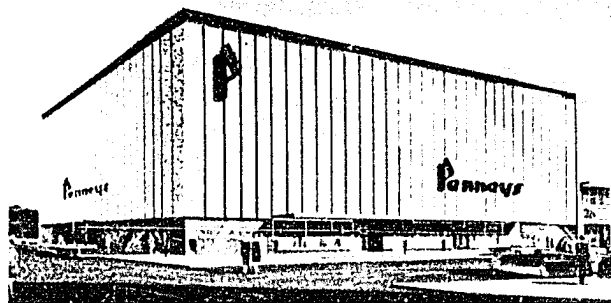
Penney stores are getting bigger . . . to accommodate the new and expanded merchandise lines we are introducing . . . and to serve our customers better.

A few years back a new Penney store usually averaged about 40,000 square feet. This year, the five new stores we are scheduled to open will average about 105,000 square feet; and the following year the average for each of the seven new stores we expect to open will jump to around 139,000 square feet.

New floor space added in 1963 amounted to about 1.4 million square feet, almost equally divided between new stores (696,000 square feet) and established stores moved to new buildings and expansions (670,000 square feet). In 1964 the total square footage figure is slated to rise to 1.7 million. Capital expenditures will reach about \$28 million against \$21 million last year. New floor space added since 1958 totals 7 million square feet.



Opening later this year, Winter Park, Fla., will be a full-line department store totaling 138,000 square feet.



Anchorage, Alaska, Penney's opened in March last year, has a trade area with 300-mile radius.

7 New Stores Opened

ALASKA

Anchorage

CALIFORNIA

Chula Vista Plaza
Chula Vista

DELAWARE

Price's Corner Center
Wilmington

FLORIDA

Brevard Mall
Shopping Center
Melbourne

ILLINOIS

Central Square
Joliet

MINNESOTA

Har-Mar
Shopping Center
Roseville

PENNSYLVANIA

King of Prussia Plaza
King of Prussia

12 Established Stores Moved to New Buildings

COLORADO

Crossroads Center
Boulder
Fort Collins

ILLINOIS

Lincoln Square
Jacksonville

MINNESOTA

Montevideo

NEBRASKA

Hastings
McCook

PENNSYLVANIA

Eastland
Shopping Center
McKeesport

Williamsport

TEXAS

Park Highland
Shopping Center
Athens
Denton
Shopping Center
Denton

WISCONSIN

Portage

WYOMING

Cheyenne

1,678 Penney Stores Serve the U.S. Coast to Coast, Alaska, Too

IN THE WEST—451

Alaska 1	Nevada 6
Arizona 21	New Mexico 20
California 159	Oregon 40
Colorado 42	Utah 25
Idaho 29	Washington 58
Montana 31	Wyoming 19

IN THE SOUTH—460

Alabama 18	Mississippi 22
Arkansas 19	North Carolina 35
Delaware 4	Oklahoma 47
Florida 32	South Carolina 14
Georgia 22	Tennessee 25
Kentucky 24	Texas 140
Louisiana 16	Virginia 21
Maryland 8	West Virginia 13

IN THE NORTH CENTRAL—631

Illinois 52	Missouri 53
Indiana 56	Nebraska 39
Iowa 67	North Dakota 23
Kansas 61	Ohio 84
Michigan 57	South Dakota 22
Minnesota 60	Wisconsin 57

IN THE NORTHEAST—136

Connecticut 5	New Jersey 9
Maine 7	New York 38
Massachusetts 7	Pennsylvania 64
New Hampshire 3	Vermont 3

Directors

FRED A. BANTZ
WILLIAM M. BATTEN
FREDERICK L. FINNEGAN
ALBERT W. HUGHES
RAY H. JORDAN
WILLIAM L. MARSHALL
EVERETT L. MOORE
J. C. PENNEY
WELLINGTON POWELL
EARL A. ROSS
FREDERICK R. SELTZER
HOWARD C. SHEPHERD
CECIL L. WRIGHT

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WILLIAM M. BATTEN
President
RAY H. JORDAN
Executive Vice President
KENNETH S. AXELSON
Vice President and Director of Finance
FREDERICK L. FINNEGAN
*Vice President and General Manager,
Catalog and Low Margin Activities*
WILLIAM L. MARSHALL
Vice President and Director of Stores
EVERETT L. MOORE
*Vice President and Director of
Real Estate and Store Planning*
LESTER O. NAYLOR
*Vice President and Director of
Catalog Sales and Operations*
FREDERICK R. SELTZER
Vice President and Director of Personnel
CECIL L. WRIGHT
*Vice President and General Sales and
Merchandise Manager*
ROBERT L. ADAIR
Comptroller
ARTHUR JACOBSEN
Treasurer
CHARLES T. STEWART
Secretary and General Counsel

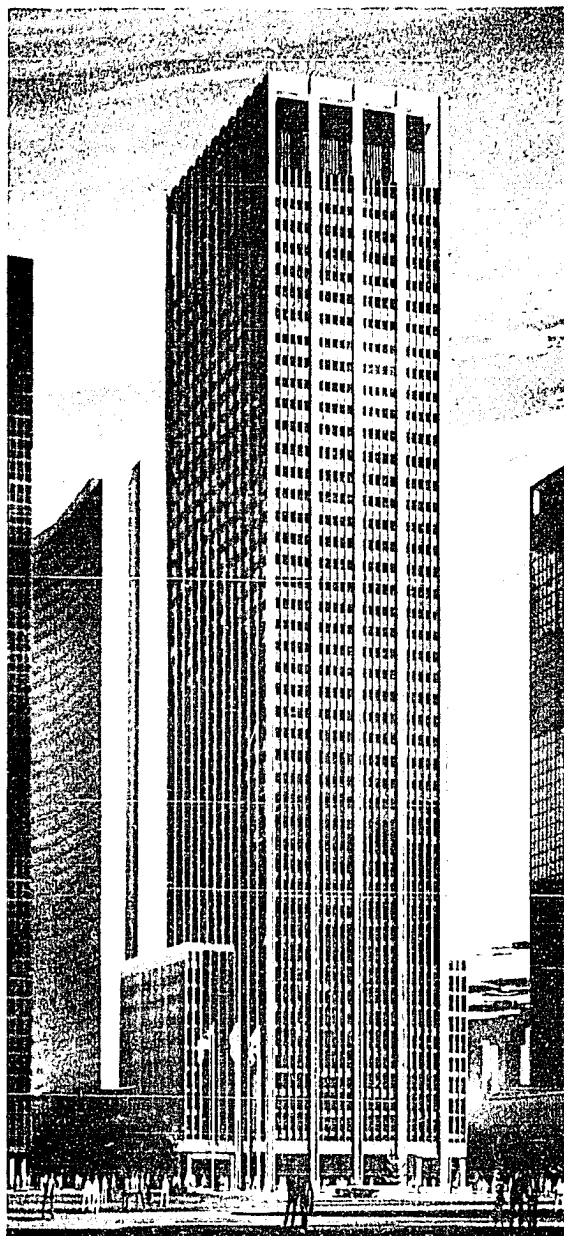
Transfer Agent

Chemical Bank
New York Trust Company
20 Pine Street
New York, New York 10015

Registrar

The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, New York 10015

Penney's New Home



Under construction in New York is this new building in which Penney's has leased approximately 850,000 square feet of floor space for its national headquarters. The new 45-story J. C. Penney Building, in the heart of Manhattan, is located at 1301 Avenue of the Americas between 52nd and 53rd Streets. It will enable all of the Company's New York operations to be concentrated under one roof. It is scheduled for occupancy early in 1965.



Statement of Earnings and Retained Earnings

	<i>Year Ended January 31</i>	
	1964	1963
Sales	\$1,834,317,527	\$1,701,332,645
Deduct:		
Cost of merchandise sold, and selling and general expenses	1,668,778,257	1,535,744,483
Maintenance and repairs	4,797,421	4,608,919
Depreciation and amortization	15,365,358	14,961,559
Taxes, other than Federal taxes on income	23,889,232	21,672,162
Company contribution to retirement plan	9,556,661	9,948,184
	<u>1,722,386,929</u>	<u>1,586,935,307</u>
	111,930,598	114,397,338
Interest expense	4,615,288	2,194,154
Less—Miscellaneous income	2,576,888	2,200,886
	<u>2,038,400</u>	<u>6,732</u>
Net earnings before Federal taxes on income	109,892,198	114,404,070
Provision for Federal taxes on income (note 1):		
Current	28,000,000	31,950,000
Deferred	26,600,000	27,650,000
	<u>54,600,000</u>	<u>59,600,000</u>
Net earnings for the year	55,292,198	54,804,070
Retained earnings:		
Balance at beginning of year	307,556,314	288,891,495
Balance at February 1, 1962 applicable to General Merchandise Company	—	1,247,316
	<u>362,848,512</u>	<u>344,942,881</u>
Less Dividends—\$1.50 per share	37,391,768	37,386,567
Balance at end of year	<u>\$ 325,456,744</u>	<u>\$ 307,556,314</u>

(See accompanying notes to financial statements on pages 18 and 19)

Accountants' Report

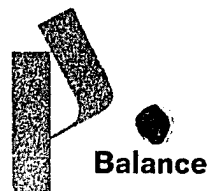
To the Stockholders and the Board of Directors
J. C. Penney Company:

We have examined the balance sheet of J. C. Penney Company and consolidated subsidiary as of January 31, 1964 and the related statement of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of earnings and retained earnings present fairly the financial position of J. C. Penney Company and consolidated subsidiary at January 31, 1964 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.
March 25, 1964

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants



Assets	<i>January 31</i>	
	1964	1963
Current assets:		
Cash	\$ 36,982,088	\$ 31,734,830
Accounts receivable less allowances for doubtful accounts \$9,462,649 at January 31, 1964	226,869,717	170,690,708
Merchandise, at lower of cost or market determined mainly by the retail method	285,310,602	244,030,829
Prepaid expenses	7,741,305	6,123,165
Total current assets	<u>556,903,712</u>	<u>452,579,532</u>
Investment in and advances to Real Estate Subsidiary, at equity in net assets	<u>8,215,115</u>	<u>3,940,052</u>
Property and equipment at cost:		
Land	3,560,367	3,173,763
Buildings, less accumulated depreciation of \$5,531,044 at January 31, 1964 and \$5,140,596 at January 31, 1963	7,182,631	7,325,253
Furniture and fixtures, less accumulated depreciation of \$91,632,557 at January 31, 1964 and \$84,704,262 at January 31, 1963	77,214,198	77,948,740
Improvements to leaseholds, less accumulated amortization of \$5,082,233 at January 31, 1964 and \$5,053,393 at January 31, 1963	6,108,038	5,830,695
	<u>94,065,234</u>	<u>94,278,451</u>
Deferred charges	1,879,772	2,037,215
	<u>\$661,063,833</u>	<u>\$552,835,250</u>

Notes to Financial Statements

1. Revenue Act of 1964

In determining the deferred Federal taxes the Company recognized the lower corporate income tax rates established by the Revenue Act of 1964.

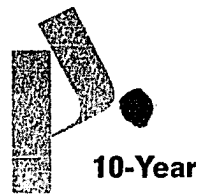
The full 7% investment credit from the acquisition of qualified property in 1963, plus the unabsorbed amount of the credit deferred at January 31, 1963, have been recorded as a reduction of current Federal income tax expense.

Liabilities	January 31	
	1964	1963
Current liabilities:		
Notes payable	\$ 79,024,000	\$ 13,500,000
Accounts payable and accrued liabilities	127,286,534	118,314,099
Dividends payable in February	14,958,778	14,955,326
Provision for Federal taxes on income	39,112,896	25,646,369
Total current liabilities	<u>260,382,208</u>	<u>172,415,794</u>
Deferred Federal taxes on income, \$23,900,000 applicable to installment sales and \$5,930,000 to depreciation (note 1)	<u>29,830,000</u>	<u>27,650,000</u>
Reserve for fire losses and associates' death benefits	<u>6,708,185</u>	<u>6,708,185</u>
Stockholders' equity:		
Common stock—par value \$1.00:		
Authorized, 27,000,000 shares.		
Outstanding, 24,931,297 shares	38,686,696	38,504,957
Retained earnings	<u>325,456,744</u>	<u>307,556,314</u>
Total stockholders' equity	<u>364,143,440</u>	<u>346,061,271</u>
	<u>\$661,063,833</u>	<u>\$552,835,250</u>

The effect of the foregoing changes was to increase earnings by approximately \$2,700,000.

2. Commitments

At January 31, 1964 total minimum annual rentals payable under leases expiring after five years was approximately \$18,500,000. Leases covering approximately 65% of this amount will expire on various dates during the next twenty years.



Year†	1963	1962	1961	1960
Results for the Year				
Sales	\$ 1,834,317,527	1,701,332,645	1,553,505,660	1,468,917,982
Earnings before federal tax	\$ 109,892,198	114,404,070	107,638,552	94,094,095
Earnings after federal tax	\$ 55,292,198	54,804,070	51,738,552	44,994,095
Taxes—federal, state and local	\$ 78,489,232	81,272,162	74,841,174	66,694,025
Dividends	\$ 37,391,768	37,386,567	37,043,784	37,043,784
Earnings retained for reinvestment in the business	\$ 17,900,430	17,417,503	14,694,768	7,950,311
Depreciation and amortization	\$ 15,365,358	14,961,559	13,793,559	12,537,040
Capital expenditures	\$ 19,966,950	18,549,440	18,195,230	20,201,386
Per Share Results*				
Net earnings	\$ 2.22	2.20	2.10	1.82
Dividends	\$ 1.50	1.50	1.50	1.50
Taxes—federal, state and local	\$ 3.15	3.26	3.03	2.70
End of Year Position				
Customers' accounts receivable (net)	\$ 224,789,049	168,659,516	97,722,383	52,217,36
Total stockholders' equity	\$ 364,143,440	346,061,271	323,014,262	308,319,494
Total assets	\$ 661,063,833	552,835,250	499,636,720	455,159,907
Ratios to Total Sales				
Earnings before federal tax	% 5.99	6.72	6.93	6.40
Earnings after federal tax	% 3.01	3.22	3.33	3.06
Credit sales	% 27.64	24.65	17.12	8.50
Other				
Number of stockholders	47,863	45,315	41,748	39,136
Number of stores	1,678	1,684	1,686	1,695
Average sales per store (full year)	\$ 1,073,665	995,528	914,571	868,455

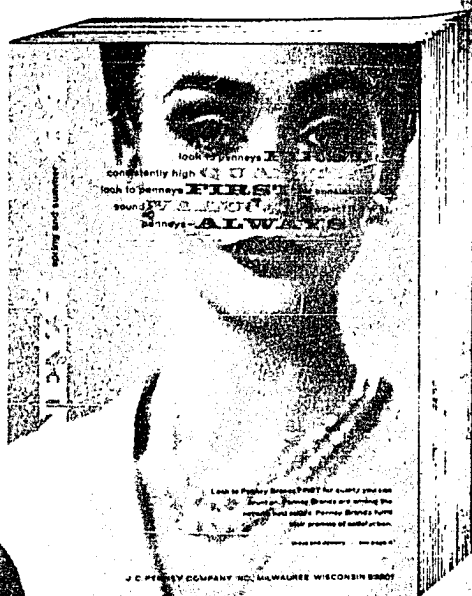
* Figures based on shares outstanding at each year end.
Prior years adjusted for 3 for 1 split in May, 1960.

† Years 1953 through 1957 are calendar years, 1958 the thirteen month period ended January 31, 1959, all other years are fiscal years ended January 31 of the subsequent year.

Financial Review

1959	1958	1957	1956	1955	1954
1,437,489,357	1,409,972,649	1,312,278,407	1,291,867,267	1,220,085,325	1,107,156,633
108,023,734	95,376,831	102,560,891	97,130,721	95,739,608	88,266,938
51,523,734	46,876,831	49,410,891	46,780,721	46,139,608	43,616,938
71,767,190	63,148,699	66,494,154	62,835,265	60,831,930	54,596,983
33,339,405	34,985,796	34,985,796	34,985,796	32,516,210	28,811,832
18,184,329	11,891,035	14,425,095	11,794,925	13,623,398	14,805,106
11,527,181	11,790,207	10,062,449	8,783,512	7,033,718	5,117,727
15,918,373	16,392,361	12,470,143	15,986,374	15,029,466	12,018,777
2.09	1.90	2.00	1.89	1.87	1.77
1.35	1.42	1.42	1.42	1.32	1.17
2.91	2.56	2.69	2.54	2.46	2.21
10,393,451	2,658,177	—	—	—	—
32,569,182	282,181,854	270,293,818	255,868,723	244,073,797	230,450,398
451,024,398	415,729,120	415,859,334	403,397,769	401,596,925	371,281,591
7.51	6.76	7.82	7.52	7.85	7.97
3.58	3.32	3.77	3.62	3.78	3.94
2.75	.30	—	—	—	—
34,766	33,997	33,720	31,695	30,019	29,421
1,683	1,687	1,694	1,687	1,666	1,644
852,268	837,055	775,491	766,182	735,293	674,844

Penneys
ALWAYS FIRST QUALITY



J. C. PENNEY COMPANY
330 West 34th Street
New York, New York 10001